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CAMFLO MINES LIMITED

Annual Report

1971



CAMFLO MINES LIMITED

OFFICERS

A. W. STOLLERY, *Chairman*
G. T. SMITH, *President*
R. E. FASKEN, *Vice-President*
R. M. SMITH, *Vice-President of Operations*
C. M. MASTERMAN, *Secretary*
K. E. ELRICK, *Treasurer*

DIRECTORS

H. BENSON, Montreal, Quebec
R. F. ELLIOTT, Q.C., Montreal, Quebec
R. E. FASKEN, Mississauga, Ontario
B. A. O'BRIEN, Old Chelsea, Quebec
G. T. SMITH, Toronto, Ontario
R. M. SMITH, Oakville, Ontario
A. W. STOLLERY, Toronto, Ontario

MINE STAFF

Mine Manager, DR. B. K. MEIKLE
Assistant Mine Manager, A. MAKILA
Chief Engineer, G. FLEMING
Mine Superintendent, A. MAILLOUX
Mill Superintendent, R. BOURGEOIS
Mechanical Superintendent, D. LALONDE
Mine Accountant, F. VODOPIVEC

AUDITORS

THORNE, GUNN, HELLIWELL & CHRISTENSON
Toronto, Ontario

BANKERS

THE TORONTO DOMINION BANK
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

THE ROYAL TRUST COMPANY
Toronto, Ottawa, Montreal

SHARE LISTING

TORONTO STOCK EXCHANGE
CANADIAN STOCK EXCHANGE

EXECUTIVE OFFICE AND HEAD OFFICE

Suite 3914, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario

MINE OFFICE

Box 640, Malartic, Quebec

FIVE YEAR COMPARATIVE SUMMARY OF OPERATIONS

	1971	1970	1969	1968	1967
Tonnage Milled	377,774	374,580	386,449	362,734	366,419
Monthly average	31,481	31,215	32,204	30,228	30,535
Recovered grade (oz./ton)243	.243	.223	.253	0.264
Value of Bullion	\$3,771,978	\$3,331,112	\$3,729,869	\$3,787,957	\$3,666,217
Ounces gold recovered	91,684	90,913	86,096	91,608	96,855
Ounces silver recovered	462	323	1,198	2,177	1,866
Value received per ton (gold)	\$ 9.98	\$ 8.89	\$ 9.65	\$ 10.44	\$ 9.997
Value received per ounce (gold)	\$ 41.19	\$ 36.64	\$ 43.32	\$ 41.35	\$ 37.82
Operating Profit (inc. E.G.M.A.)	\$1,671,680	\$1,419,246	\$1,391,531	\$1,484,963	\$1,475,276
Per issued share	49.0¢	41.6¢	40.8¢	43.6¢	43.3¢
Issued shares (December 31st)	3,411,107	3,411,107	3,411,107	3,408,107	3,406,107
Per ton milled	\$ 4.43	\$ 3.79	\$ 3.60	\$ 4.09	\$ 4.03
E.G.M.A. Cost-Aid	\$ 71,000	\$ 367,000	\$ 90,000	\$ 40,000	\$ 5,650
E.G.M.A. Cost-Aid per ounce	\$ 0.78	\$ 4.04	\$ 1.04	43.7¢	5.8¢
Mine Operating Costs (exc. E.G.M.A.)	\$2,060,232	\$2,138,824	\$2,228,540	\$2,191,941	\$2,092,612
Per ton milled	\$ 5.45	\$ 5.71	\$ 5.77	\$ 6.04	\$ 5.71
Per ounce recovered	\$ 22.50	\$ 23.53	\$ 25.88	\$ 23.93	\$ 21.62
Cash Flow from Operations (Inc. E.G.M.A.)	\$1,587,680	\$1,349,246	\$1,311,531	\$1,373,463	\$1,359,276
Per issued share	46.5¢	39.6¢	38.5¢	40.3¢	39.9¢
Net Income	\$ 675,759	\$ 668,510	\$ 786,516	\$ 933,678	\$ 980,035
Per issued share	19.8¢	19.6¢	23.0¢	27.4¢	28.8¢

CAMFLO MINES LIMITED



Raymond Mayrand drilling on a sub-drift round above the 1950 level.

REPORT OF THE DIRECTORS

To the Shareholders:

Your Directors submit the Annual Report for the year ended December 31st, 1971, comprising Reports of the Directors and the Mine Manager, together with audited financial statements.

Year in Review

As a result of higher average gold prices received during the year and a modest reduction in operating cost because of a cutback in underground development due to the deepening of the shaft, cash flow from operations increased from \$1,349,246 to \$1,587,680. Net income, however, only increased from \$668,510 to \$675,759 due to higher provisions for depreciation, deferred income taxes and an allowance for a decline in the market value of investments which was partially offset by reduced provisions for amortization.

Jean-Remi Roy operating a Cavo loader on the 1100 level.



Vianney Dufour tramming ore on the 1100 level.



A landmark was reached in March when the 500,000th ounce from the mine was poured. The coins give an idea of the size of the gold bars which weigh 60 pounds each and are worth over \$30,000.



Joe Watson repairing a drill in the machine shop.

Financial

Value of bullion production was \$3,771,978 from the production of 91,684 ounces of gold compared with \$3,331,112 from the production of 90,913 ounces in 1970. Cash flow from operations increased from 39.6 cents per share in 1970 to 46.5 cents per share in 1971. During 1971 the Company received an average price of \$41.19 per ounce compared with \$36.64 per ounce during 1970. Net income per share only increased from 19.6 cents per share to 19.8 cents per share because of an increase in provision for deferred income taxes in the amount of \$241,000 and an allowance for decline in the market value of investments of \$125,000. The Company, from January 1, 1971, changed its method of calculating depreciation and amortization provisions so that these will be written off on the basis of ore reserves. This results in an increase in net earnings.

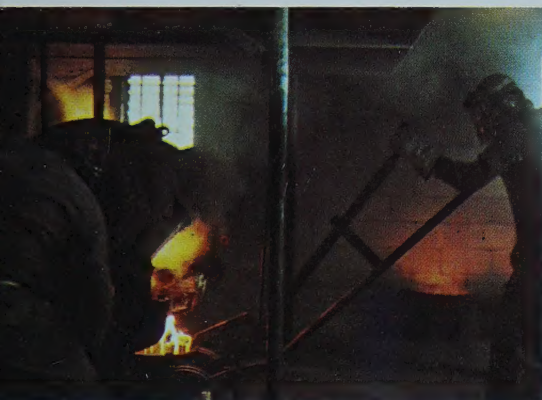
Dividends paid in 1971 were similar to those paid in 1970, namely, at the rate of 10 cents per share, or \$341,000, which brings the total dividends paid by the Company from its commencement of mine operations at Malartic to \$2,215,720.

Operations and Ore Reserves

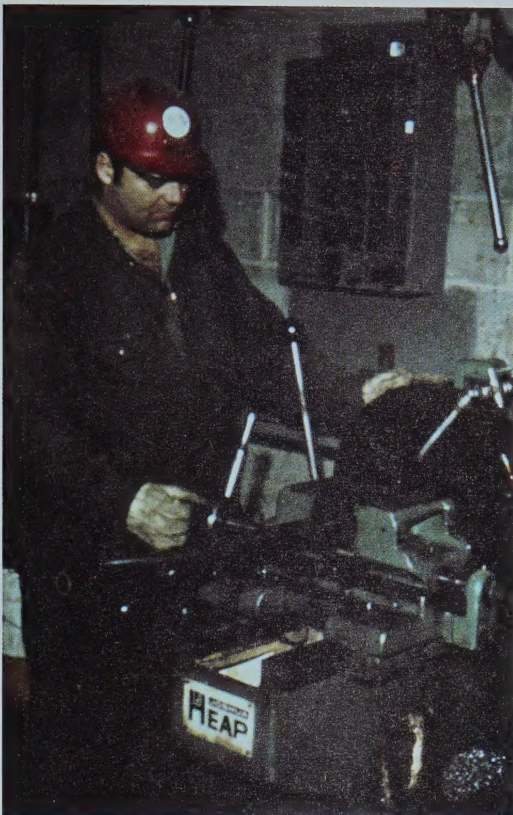
Tons of ore milled during the year showed a small increase from 374,580 tons in 1970 to 377,774 tons in 1971. The grade of ore mined was consistent in both years, averaging .243 ounces per ton. Mine operating costs were lower at \$5.44 compared with \$5.71 per ton in 1971, but this was primarily due to the decreased amount of development work undertaken because of the shaft deepening programme to 2,760 feet, reduced mining costs because of the decrease in the number of tons of ore broken and minor improvements in the efficiency of the mine and mill. Operating costs can be expected to increase in 1972 as a result of the resumption of normal underground development and increased labour cost, but it is expected that cost per ton milled can be maintained in the area of \$5.70 per ton.

Ore reserves declined slightly at the year end to 1,946,460 tons grading .245 ounces per ton compared to 2,174,000 tons grading .241 ounces per ton at the end of 1970. As some 377,774 tons were milled during the year this is a decrease of only 227,540 tons, and the ore reserves should increase during 1972 as a result of underground development on the three new levels established in 1971.

Florent Gagnon performing a titration in the mill.



Gold is poured from the bullion furnace into a mold in the refinery.



Jean-Guy Bosse working on the threading machine in the shop.



Gaston MacDonald, Armand Mailloux, mine superintendent, Jean-Claude St. Laurent and Guy Langlois about to descend in the bucket during shaft sinking operations.

General

As will be seen from the accompanying Report of the Mine Manager, preliminary exploration programmes were carried out in Quebec, Ontario and British Columbia. These programmes will be continued in 1972 with geophysics and drilling being planned for the copper-molybdenum prospect in British Columbia and in addition, drilling is contemplated on claims owned in Clericy Township some 15 miles east of Noranda, Quebec.

The outlook for the Company for the 1972 fiscal year appears encouraging as a result of strong gold prices due to the continuation of international monetary uncertainties. In spite of the Smithsonian agreement reached in Washington in December of 1971, resulting in a revaluation in the world's major currencies, and the non-convertibility of the United States dollar, considerable doubt still exists as to the basic strength of the United States dollar due to the deficit in the balance of payments problem. It would appear that until further international monetary reform

is achieved, including the re-convertibility of the United States dollar, there will be continued strength in the free market price for gold.

Your Directors wish to acknowledge the contribution made by all the employees of the Company to the success of its operations in 1971. Their efforts in achieving reduced operating costs under difficult operating conditions deserve the highest commendation.

On behalf of the Board of Directors,

“A. W. STOLLERY”
Chairman

“G. T. SMITH”
President

Toronto, Ontario,
April 17th, 1972.

REPORT OF THE MINE MANAGER

February 14, 1972.

To the Chairman of the Board, President and Directors:

The following report details operations of the company's mine in the Malartic area, Quebec, for the year ended December 31st, 1971 together with comparative statistics for prior years, where applicable.

Summary:

During the year 91,684 ounces of gold worth \$3,700,000 were produced. The mill treated 377,774 tons, an average of 1,035 tons per day, the recovery was 95.8% and the recovered grade was 0.243 ounces of gold per ton.

The shaft was deepened to 2,760'. During this programme the amount of normal development was curtailed and this resulted in a slight decrease in both ore reserves and operating costs. Contributing factors to the cost reduction were increased efficiency in the mine and mill and a small reduction in the number of tons of ore broken and drilled off.

Production:

	1971	1970	1969
Tons of ore broken	407,553	490,199	354,842
Tons of ore milled	377,774	374,580	386,449
Average recovery	0.243 oz/ton	0.243 oz/ton	0.223 oz/ton

Mine Operating Costs:

	1971	1970	1969
	Total Cost	Cost per Ton milled	Cost per Ton milled
Development	\$ 111,970	\$ 0.296	\$ 0.397
Mining	1,119,149	2.962	3.092
Milling	486,623	1.288	1.429
General	319,986	0.836	0.754
Marketing	22,504	0.060	0.038
TOTAL	\$2,060,232	\$ 5.442	\$ 5.710
			\$ 5.766

Summary of Stope Extraction by Levels:

Level	Tonnage	Oz/ton
750-900	6,489	0.176
900-1100	113,859	0.161
1100-1300	21,519	0.290
1300-1500	90,978	0.177
1500-1650	77,472	0.344
1650-1800	39,604	0.406
1800-1950	24,459	0.274
1950-2100	3,394	0.181

CAMFLO MINES LIMITED



Mine Development:

Detailed diamond drilling of the ore body was completed on the 2100 level and some exploration drilling was conducted.

The shaft was deepened from 2,304' to 2,760' and three stations were completed at the 2400, 2550 and 2700 foot levels. A loading pocket was installed below the 2550 level and ore and waste passes were started from this point to the upper levels. These were completed early in 1972.

The following figures show the amount of regular development completed.

	1971	1970	1969
Feet of drifting and crosscutting	1,994	4,194	2,431
Feet of raising	2,377	1,725	1,441
Feet of diamond drilling	18,287	26,238	18,554
Stope preparation — Feet	5,059	6,146	6,859
— Tons	39,438	52,899	47,379

Ore Reserves:

Total proven and indicated ore reserves, including a 10% allowance for dilution, are 1,946,460 tons of 0.245 ounces of gold per ton. This is a decrease of 227,540 tons after the milling of 377,774 tons during the year. The grade of the reserves improved as additional quantities of good grade ore were outlined. The drill programme on the new levels will be started this spring and is expected to result in additions to these reserves.

Details of the reserves are as follows.

	Year end 1971	Year end 1970	Year end 1969
Broken ore underground	264,077 tons	235,016 tons	121,158 tons
Stockpile ore	3,774 tons	3,056 tons	1,295 tons
Total Broken Ore	267,851 tons	238,072 tons	122,453 tons
Drilled Off Ore	258,895 tons	347,251 tons	339,731 tons
Total Broken and Drilled Off	526,746 tons	585,323 tons	462,184 tons
Broken and Proven — Tons	1,460,000	1,455,000	1,502,000
Oz/Ton ..	0.244	0.233	0.218
Indicated — Tons	486,460	719,000	607,000
Oz/Ton ..	0.250	0.256	0.241
Total Proven and Indicated — Tons	1,946,460	2,174,000	2,109,000
Oz/Ton ..	0.245	0.241	0.224

Note — Tonnage includes a 10% dilution allowance and the grades shown are for the estimated recoverable gold.

Outside Exploration:

Detailed electromagnetic and magnetometer surveys on five claims in Vassan Twp. gave negative results and the claims were allowed to lapse.

An option was taken on a copper-nickel prospect in Villebon Twp. and this was dropped when no strong geophysical anomalies were obtained.

In the summer a geological exploration party in Quebec met with no success but one in British Columbia located a copper-molybdenum prospect in the south-central part of the province. Ten claims were staked and a detailed exploration programme will be carried out in 1972.

Detailed prospecting north of Havelock, Ontario is continuing. Some high grade samples have been obtained but the occurrences located to date appear to be of limited extent.

Ten claims were staked on a strong aerial electromagnetic anomaly located 15 miles east of Noranda. Early in 1972 the anomaly was confirmed by ground work and this will probably be followed by diamond drilling next summer.

General:

In 1972 we will start the development and exploration of the 2250 and 2400 levels.

Production should be similar to that achieved in 1971 and only a slight increase in operating costs is expected.

Labour relations continued favourable and the diligent and efficient work of the 126 employees is very much appreciated.

Respectfully submitted,

BRIAN K. MEIKLE, Ph.D.,
Mine Manager.

9000E

9500E

10000E

10500E

PORPHYRY STOCK
(Projected onto Longitudinal Section)

300 LEVEL

450 LEVEL

600 LEVEL

750 LEVEL

900 LEVEL

No.1 LOADING POCKET

1100 LEVEL

1300 LEVEL

No.1 CRUSHER ROOM

1500 LEVEL

No.2 LOADING POCKET

1650 LEVEL

1800 LEVEL

1950 LEVEL

No.2 CRUSHER ROOM

2100 LEVEL

No.3 LOADING POCKET

2200 LEVEL





2400 LEVEL

CRUSHER

2550 LEVEL

No.4 LOADING POCKET

2700 LEVEL

-  STOPED OUT
-  STOPED & BROKEN ORE 1970
-  STOPED & BROKEN ORE 1971
-  DEVELOPMENT WORK 1971

LONGITUDINAL SECTION
LOOKING NORTH

0 200 400 600
FEET

SUMP

SUMP

BALANCE SHEET — DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS

CURRENT ASSETS

Cash
Bullion, at net realizable value
Receivable under The Emergency Gold Mining Assistance Act
Accounts receivable
Ore stockpile, at net realizable value
Supplies, at cost
Prepaid expenses and deposits

INVESTMENTS, at cost less allowance for decline in value of \$125,000 in 1971
(quoted market value 1971, \$450,200; 1970, \$162,700)

FIXED ASSETS, at cost (note 1)

Buildings and equipment
Less accumulated depreciation

Mining property

OTHER ASSETS AND DEFERRED EXPENDITURES

Mortgages receivable from employees
Preproduction expenditures less amortization (note 1)
Deferred development and exploration expenditures less amortization (note 1)

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities
Taxes payable

DEFERRED INCOME TAXES (note 2)

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized — 5,000,000 shares, par value \$1 each
Issued — 3,411,107 shares
Discount thereon (net)

RETAINED EARNINGS

Contingent liability (note 3)

CAMFLO MINES LIMITED

(Incorporated under the laws of Ontario)



AUDITORS' REPORT

1971	1970
\$ 322,821	\$ 21,311
811,403	277,996
27,934	345,639
2,428	8,944
27,260	21,549
168,818	175,109
15,523	14,007
1,376,187	864,555
573,780	205,462
3,141,271	3,072,592
1,280,790	911,491
1,860,481	2,161,101
5,000	5,000
1,865,481	2,166,101
27,433	30,147
177,097	212,517
380,325	287,875
584,855	530,539
\$4,400,303	\$3,766,657

To the Shareholders of
CAMFLO MINES LIMITED

We have examined the balance sheet of Camflo Mines Limited as at December 31, 1971 and the statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for depreciation and amortization, explained in note 1 to the financial statements, have been applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Toronto, Canada
January 28, 1972

\$ 158,008	\$ 160,994
14,583	18,599
172,591	179,593
370,725	64,725

Approved by the Board:

"A. W. STOLLERY", Director.

"G. T. SMITH", Director.

3,411,107	3,411,107
1,844,880	1,844,880
1,566,227	1,566,227
2,290,760	1,956,112
3,856,987	3,522,339
\$4,400,303	\$3,766,657

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Bullion production	\$3,771,978	\$3,331,112
Operating expenses other than items set out below	2,060,232	2,138,824
Quebec mining tax	75,000	70,000
Administrative expenses	99,893	106,033
Exploration	11,173	34,009
	2,246,298	2,348,866
Deduct emergency gold mining assistance	71,000	367,000
	2,175,298	1,981,866
	1,596,680	1,349,246
Depreciation	371,752	307,086
Amortization of preproduction expenditures	35,419	211,810
Amortization of deferred development expenditures	73,750	97,115
	480,921	616,011
Income before income taxes and extraordinary item	1,115,759	733,235
Income taxes (note 2)		
Current	9,000	
Deferred	306,000	64,725
	315,000	64,725
Income before extraordinary item	800,759	668,510
Allowance for decline in value of an investment	125,000	
Net income for the year	\$ 675,759	\$ 668,510
Earnings per share		
Income before extraordinary item	23¢	20¢
Net income for the year	20¢	20¢

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	\$1,956,112	\$1,628,713
Net income for the year	675,759	668,510
	2,631,871	2,297,223
Dividends paid	341,111	341,111
Balance at end of year	\$2,290,760	\$1,956,112

CAMFLO MINES LIMITED



STATEMENT OF SOURCE AND APPLICATION OF FUNDS YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Operations		
Income before extraordinary item	\$ 800,759	\$ 668,510
Items not involving current funds		
Depreciation and amortization	480,921	616,011
Income taxes deferred	306,000	64,725
Other	4,215	4,361
	<u>1,591,895</u>	<u>1,353,607</u>
Proceeds from sale of investments		135,289
Proceeds from sale of fixed assets	5,600	10,278
Receipts on mortgages receivable from employees	2,713	1,050
	<u>1,600,208</u>	<u>1,500,224</u>
 APPLICATION OF FUNDS		
Additions to fixed assets	80,945	73,508
Deferred development and exploration expenditures	166,200	55,083
Dividends paid	341,111	341,111
Purchase of investments	493,318	298,769
	<u>1,081,574</u>	<u>768,471</u>
Increase in working capital position	518,634	731,753
Working capital (deficiency) at beginning of year	684,962	(46,791)
Working capital at end of year	<u>\$1,203,596</u>	<u>\$ 684,962</u>

CAMFLO MINES LIMITED



NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1971

1. DEPRECIATION AND AMORTIZATION POLICY

On January 1, 1971, the company commenced to provide for depreciation and amortization on a straight-line basis on net book value at that date over the estimated remaining life of the mine as determined by ore reserves established from time to time. Previous provisions for depreciation and amortization were on a straight-line basis at annual rates of 10% and 15% respectively. The charge for depreciation and amortization is \$167,000 less, and the provision for deferred taxes \$84,000 greater, than that which would have been provided on the previous basis resulting in an increase in net income of \$83,000.

Exploration expenditures are deferred and written off to income if the project is abandoned.

2. INCOME TAXES

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming depreciation and amortization for tax purposes in excess of amounts provided in the accounts. The accumulated total of such income tax deferments is reflected in the balance sheet as "Deferred income taxes".

In 1970, the company charged earnings with deferred income taxes on the accumulated excess of amounts claimed for tax purposes over amounts provided in the accounts.

3. CONTINGENT LIABILITY

A writ has been served on the company alleging certain wrongful acts and claiming damages of \$1,330,000. The company contends that such allegations are unfounded.

4. OTHER STATUTORY INFORMATION

Direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to \$86,009 (1970, \$77,489).

